

~~CONFIDENTIAL~~

28 May 1980

MEMORANDUM FOR: Director of Economic Research
FROM: Director of Central Intelligence
SUBJECT: Soviet Capability for Industrial Mobilization

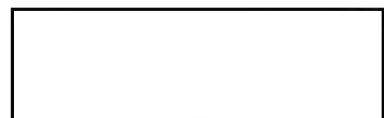
Last Sunday, Frank Weil had an article on The Washington Post op-ed page (copy attached). He points out that the Soviets have "an industrial capacity comparable in war-making ability to ours." Have we ever done anything to look at this and place it in perspective? I suspect there is still a general feeling in our country that one of our great reservoirs of strength vis-a-vis the Soviets must be our ability to mobilize our industrial potential. To the extent that is not the case, or that we should view it with considerable limitation, it seems to me we might want to explain this to our customers.



STANSFELD TURNER

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Attachment



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The Best Defense Is a Good Economy

If history is recorded correctly, the man who led Japan's navy against Pearl Harbor, Admiral Yamamoto, tried in vain to argue his government out of attempting war against the United States. He had seen our country up close while stationed here, and he realized that Japan could not sustain a war effort in competition with our industrial capacity.

One has to wonder today what kind of reports the Kremlin gets from the Soviet Embassy in Washington. An excerpt from a recent survey might have said: "The U.S. economy may be nearing the point contemplated by Marx when capitalism might strangle itself; the prime rate of interest is 20 percent; the inflation rate is near 18 percent; the unemployment rate is headed to 8 percent; the prices of gold and silver are gyrating wildly; the dollar has been weak for several years; the trade deficit for the one month of February 1980 was nearly \$5 billion; the federal budget deficit could be as high as \$100 billion if the coming business recession becomes acute; the rate of capital investment in industry as a percentage of GNP is now the lowest of all the major industrial nations; the growth rate of productivity in 1979 was negative; expenditures for R&D have fallen as a share of GNP."

An accompanying political analysis might have added: "Because of the domestic and international economic outlook, it is highly unlikely that the United States can muster the additional military expenditures proposed and threatened in response to our Southwest Asian activities. This is no doubt

why they resort to cosmetic gestures, such as embargoes, which probably cost them more than us. Accordingly, we recommend a steady, relentless pursuit of our national goals. The United States will rattle its sabre but, because of its economic problems, it is not likely to be a serious military counterthreat for some time to come, unless it produces an economic miracle."

What this means is that we are in quite a different position from the one we were in in 1912 and 1936. Then, our prospective military enemies, as measured by adjusted gross domestic product, were well behind us and were significantly dependent for resources on external sources.

Adjusted Gross Domestic Product
in U.S. dollars (billions)
at 1970 prices and exchange rates
based on purchasing power parities

	1912	1936	1978
United States	\$170	\$271	\$1,268
Germany	38	57	287
Japan	24	51	469
U.S.S.R.	69	79	629

Today, the differential between us and the Soviets, though still double, is in a number of respects less significant. The Soviets are more or less economically and resource-independent. Moreover, the Soviets have an industrial capacity com-

parable in war-making ability to ours. A significant part of our large gross domestic product comes from the nonindustrial sectors of our economy that have no relation to our war-making ability.

Moreover, our untapped industrial potential today is significantly less than it was on both prior occasions. Our ability to make all the military hardware we need isn't the main doubt, but our new energy dependence puts in question how much we can afford.

Accordingly, our national huffing and puffing should be focused much more on fixing our economy. To restore our credit standing, we need to make our industrial base vital and competitive again. To do that, we have to restimulate capital investment and innovation as a share of our GNP. To do that, we have to deregulate creatively and provide incentives for American business. That means seeking a better political balance between our non-economic domestic priorities and our economic needs.

If we can learn politically that our industrial base is as fundamental to our national security as our military capacity, we can produce an economic miracle. Then the Soviets and others may again treat us with the caution and respect the security of this globe needs.

The writer, a former assistant secretary of commerce, practices law in Washington.